

**BOONE COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS**

**For Years Ending December 31, 2016 and 2015**

# BOONE COUNTY WATER DISTRICT

## FINANCIAL STATEMENTS

December 31, 2016 and 2015

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**BOONE COUNTY WATER DISTRICT**

**BOARD OF COMMISSIONERS**

**December 31, 2016 and 2015**

Richard Knock, Chairman

Mike Giordano, Vice Chairman

James Daugherty, Treasurer

Tim Alexander, Jr., Secretary

Charlie Cain

**Of Counsel**

David Koenig, Esq.



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

Charles A. Van Gorder, CPA  
Lori A. Owen, CPA  
John R. Chamberlin, CPA, MBA  
Members of AICPA & KyCPA  
Licensed in Kentucky & Ohio

## Independent Auditor's Report

To the Board of Commissioners  
Boone County Water District

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Boone County Water District (District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Boone County Water District as of December 31, 2016 and 2015 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–7 and the pension disclosure on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2017 on our consideration of Boone County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boone County Water District's internal control over financial reporting and compliance.

*Van Gorder, Walker & Co., Inc.*

Van Gorder, Walker & Co., Inc.  
Erlanger, Kentucky  
April 17, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2016. The information is presented in conjunction with the audited financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

The District saw an increase in net position during 2016. This was primarily due to capital contributions from transmission lines donated to the District by developers.

### USING THIS ANNUAL REPORT

The financial statements presented herein include all of the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, and notes to the financial statements. These statements show the condition of the District's finances and the sources of income and the funds expended.

### SUMMARY OF NET POSITION

Table 1 provides a summary of the District's Net Position at December 31, 2016 and 2015.

Table 1 – Net Position

	<u>2016</u>	(Restated) <u>2015</u>
Current Assets	\$17,030,911	\$15,092,978
Restricted Assets	431,331	1,166,145
Noncurrent Assets/Capital Assets	82,396,783	80,475,609
Deferred Outflow of Resources	<u>493,743</u>	<u>397,616</u>
Total Assets and Deferred Outflow of Resources	<u>100,352,768</u>	<u>97,132,348</u>
Current Liabilities	1,554,201	1,339,221
Liabilities from Restricted Assets	467,648	451,122
Long - Term Liabilities	6,869,521	6,998,946
Deferred Inflow of Resources	<u>10,332</u>	<u>-0-</u>
Total Liabilities and Deferred Inflow of Resources	<u>8,901,702</u>	<u>8,789,289</u>
Net Position:		
Net investment in Capital Assets	77,564,095	75,237,204
Restricted	422,216	1,164,216
Unrestricted	<u>13,464,755</u>	<u>11,941,639</u>
Total Net Position	<u>\$91,451,066</u>	<u>\$88,343,059</u>

Net Position (i.e., total assets net of total liabilities) is divided into three components: 1) net investment in capital assets, 2) restricted and 3) unrestricted.

The majority of the net position of the District is included in the first category which consists of capital assets: land, buildings, transmission lines and equipment net of accumulated depreciation. This classification accounts for 85% of the total net position.

The second category, restricted, represents resources that are subject to restrictions on how they are to be expended.

The third category, unrestricted, may be used by the District to meet current obligations to creditors.

## SUMMARY OF CHANGES IN NET POSITION

### Revenues

Operating revenues increased \$208,521 or 1.6% from 2015 to 2016. This increase is primarily due to the addition of new customers during 2016 and increased usage by industrial customers.

### Water Purchased

The cost of water increased \$609,465 or 7.6% from 2015 to 2016. The majority of this increase, approximately 66%, is due to the fact that water rates charged to the District increased and this increase was not passed on to their customers. The remainder of the increase was caused by an increase in the amount of water sold, increases in the amount of water used for flushing and maintenance and an increase in water lost.

### Operating & Maintenance Expenses

Operating and maintenance expenses increased \$121,345 or 4.1% from 2015 to 2016. Approximately 78% of this increase is due to an increase in employee salaries and wages. The remainder is due to small increases in overall expenses.

### Depreciation

Depreciation expense for 2016 and 2015 was \$2,405,449 and \$2,361,296, respectively. This increase of \$44,153 or 1.9% is consistent with the increase seen in depreciation expense in recent years.

### Interest and Investment Income

Interest and Investment income decreased \$161,651 from 2015 to 2016. During 2015 the District moved cash reserves from low interest rate certificates of deposit to an investment portfolio with a higher rate of return. This portfolio consists of US Treasuries, US Agency debt, Municipal Bonds, Mutual Funds, and Money Market Funds. These investments, unlike certificates of deposit, carry with them the risk of loss. The amount of this unrealized loss, \$233,929, has been included in investment income. Since the District plans to hold these investments to maturity, the management believes that these losses will never be incurred. If excluded, investment income has actually increased \$68,855 or 110% from 2015 to 2016. See the table below for a breakdown of investment income for 2015 and 2016.

	<u>2016</u>	<u>2015</u>	<u>Increase/Decrease</u>
Interest and dividends	\$ 113,045	\$ 47,195	\$ 65,850
Realized gains on the sale of investments	24,459	11,497	12,962
Accrued income	24,007	9,732	14,275
Investment fees	(30,309)	(6,077)	(24,232)
Investment income	131,202	62,347	68,855
Unrealized gain/loss on investment	(233,929)	(3,423)	(230,506)
Reported interest and investment income	<u>\$ (102,727)</u>	<u>\$ 58,924</u>	<u>\$ (161,651)</u>

### Capital Contributions

Capital contributions increased \$2,881,117 from 2015 to 2016. This was primarily due to an increase of \$2,898,440 in dedicated lines donated by contractors during 2016.

### Prior Period Adjustment

During 2015, Government Accounting Standards board Statement No. 68 required the District to report its portion of the estimated unfunded pension liability associated with its participation in the county Employee Retirement System (CERS). The prior period adjustment of \$66,891 reported in the statement of changes in net position accounts for corrections in the amount of unfunded pension liability reported at June 30, 2015 by CERS as well as corrections in the calculation of deferred inflows and outflows by the District. See note 7 to the financial statements for a more complete explanation of this unfunded liability and the related deferred inflows and outflows.

The following schedule compares the revenues and expenses for the current year and the previous year.

**Table 2 – Changes in Net Position**

	<u>2016</u>	(Restated) <u>2015</u>
Operating Revenues:		
Water Sales	\$13,220,275	\$12,941,395
Forfeited Discounts	209,804	273,713
Other Water Revenues	<u>129,896</u>	<u>136,346</u>
Total Operating Revenues	<u>13,559,975</u>	<u>13,351,454</u>
Operating Expenses:		
Water Purchased	8,662,074	8,052,609
Operating and Maintenance	3,077,243	2,955,898
Depreciation	<u>2,405,449</u>	<u>2,361,296</u>
Total Operating Expenses	<u>14,144,766</u>	<u>13,369,803</u>
Net Operating (Loss)	<u>(584,791)</u>	<u>(18,349)</u>
Non-Operating Income (Expenses):		
Interest Income	24,241	34,322
Investment (Loss) Income	(126,968)	24,603
Gain on Sale of Assets	15,080	-
Net effect of pension expense	(199,837)	(81,024)
Interest on Long-Term Debt	(162,694)	(172,867)
Amortization of Debt Expenses	<u>(9,825)</u>	<u>(9,825)</u>
Net Non-Operating Income (Expenses)	<u>(460,003)</u>	<u>(204,791)</u>
Net Income (Loss)	(1,044,794)	(223,140)
Capital Contributions	<u>4,152,801</u>	<u>1,271,685</u>
Change in Net Position	3,108,007	1,048,545
Net Position – Beginning	88,343,059	87,361,405
Prior Period Adjustment	<u>-0-</u>	<u>(66,891)</u>
Net Position – Ending	<u>\$ 91,451,066</u>	<u>\$ 88,343,059</u>

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At December 31, 2016, the District had \$82,396,783 invested in capital assets including land, buildings, water treatment, transmission and distribution system, equipment, and vehicles, as reflected in the following schedule. This represents a net increase (additions less retirements and depreciation) of \$1,921,174.

Table 3 Summarizes the District's capital assets at the end of 2016 as compared to 2015.

**Table 3 – Capital Assets at Year End  
(Net of Depreciation)**

	<u>2016</u>	<u>2015</u>
Land	\$ 256,633	\$ 256,633
Construction in Progress	219,764	143,018
Transmission Lines	111,606,375	107,386,965
Automated Meter System	1,663,110	1,663,110
Rate Study	220,578	220,578
Furniture and Fixtures	127,947	127,947
Machinery & Equipment	1,378,047	1,383,847
Buildings	<u>1,948,578</u>	<u>1,946,420</u>
Subtotal	117,421,032	113,128,518
Accumulated Depreciation	<u>(35,024,249)</u>	<u>(32,652,909)</u>
Total Capital Assets	<u>\$ 82,396,783</u>	<u>\$ 80,475,609</u>

**Debt Outstanding**

Table 4 illustrates the District's outstanding debt at the end of 2016 and 2015.

**Table 4 – Outstanding Debt at Year End**

	<u>2016</u>	<u>2015</u>
Bonds Payable	\$ 960,000	\$ 1,240,000
Capitalized Lease	1,905,266	2,011,537
Notes Payable-KIA	<u>1,967,422</u>	<u>1,986,868</u>
Total Debt	<u>\$ 4,832,688</u>	<u>\$ 5,238,405</u>

All of the required payments were made on the District's outstanding debt in 2016.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's budget for 2017 projects operating revenues to increase 4.3% while operating expenses are expected to increase approximately 3.5%. The amount budgeted for operating revenues is strictly an estimate since consumption is directly related to weather conditions which are unpredictable. Operating expenses are expected to increase during 2017 primarily due to expected increases in water costs as a result of another rate increase from our supplier, an increase in employee wages and benefits and an increase in the cost of material and supplies. Although a net operating loss is expected to be incurred during 2017, it is expected to be less than the net operating loss incurred in 2016.

**FINANCIAL CONTACT**

This District's financial statements are designed to present users (citizens, customers, investors and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional information, contact the District Administrative Office at 2475 Burlington Pike, Burlington, KY 41005.

Harry Anness, General Manager  
Boone County Water District

<b>BOONE COUNTY WATER DISTRICT</b> <b>STATEMENTS OF NET POSITION</b> <b>December 31, 2016 and 2015</b>
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<b>ASSETS</b>	<b>2016</b>	<b>(Restated) 2015</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 277,489	\$ 679,969
Investments	8,677,140	3,578,320
Reserve for depreciation, investment cash and equivalents and CDs	5,578,469	8,572,028
Accounts receivable		
Customers, net of allowance	2,036,117	1,794,243
Others	53,395	42,131
Assessments receivable	209,130	218,072
Inventories	169,912	183,701
Prepays	29,259	24,205
Accrued interest income	-	309
<b>Total Current Assets</b>	<u>17,030,911</u>	<u>15,092,978</u>
<b>Restricted Assets</b>		
Debt service account	83,079	79,198
Debt service reserve account	348,252	336,947
Renewal and replacement account	-	750,000
<b>Total Restricted Assets</b>	<u>431,331</u>	<u>1,166,145</u>
<b>Capital Assets</b>		
Land, building, transmission system, equipment, and vehicles	117,201,268	112,985,500
Construction in progress	219,764	143,018
Total utility plant in service	<u>117,421,032</u>	<u>113,128,518</u>
Less accumulated depreciation	<u>(35,024,249)</u>	<u>(32,652,909)</u>
<b>Total Capital Assets, Net</b>	<u>82,396,783</u>	<u>80,475,609</u>
<b>TOTAL ASSETS</b>	99,859,025	96,734,732
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred outflows related to pensions	460,092	354,140
Deferred refunding costs on defeased bond debt	<u>33,651</u>	<u>43,476</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<u>100,352,768</u>	<u>97,132,348</u>

Continued on page 9

<b>BOONE COUNTY WATER DISTRICT</b> <b>STATEMENTS OF NET POSITION - Continued</b> <b>December 31, 2016 and 2015</b>
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<b>LIABILITIES</b>	<b>2016</b>	<b>(Restated) 2015</b>
<b>Current Liabilities</b>		
Accounts payable	805,376	675,440
Accrued payroll and taxes	389,124	346,216
Deferred revenue on tap ins	51,000	24,445
Customer deposits	308,701	293,120
<b>Total Current Liabilities</b>	<u>1,554,201</u>	<u>1,339,221</u>
<b>Current Liabilities Payable From Restricted Assets</b>		
Bonds payable	295,000	280,000
KIA note payable	71,122	69,240
Capital lease payable	58,760	56,477
Accrued interest payable	42,766	45,405
<b>Total Current Liabilities Payable From Restricted Assets</b>	<u>467,648</u>	<u>451,122</u>
<b>Long-Term Obligations</b>		
Bonds	665,000	960,000
Capital lease - KRW	1,846,506	1,955,060
KIA loan payable - KRW	1,896,300	1,917,628
Net unfunded pension liability	2,461,715	2,166,258
<b>Total Long-Term Obligations</b>	<u>6,869,521</u>	<u>6,998,946</u>
<b>TOTAL LIABILITIES</b>	<b>8,891,370</b>	<b>8,789,289</b>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred inflow related to pensions	10,332	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	<u>8,901,702</u>	<u>8,789,289</u>
<b>NET POSITION</b>		
Net investment in capital assets	77,564,095	75,237,204
Restricted	422,216	1,164,216
Unrestricted	13,464,755	11,941,639
<b>TOTAL NET POSITION</b>	<u>\$ 91,451,066</u>	<u>\$ 88,343,059</u>

The accompanying notes are an integral part of the financial statements.

<b>BOONE COUNTY WATER DISTRICT</b> <b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b> <b>For Years Ending December 31, 2016 and 2015</b>
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	2016	(Restated) 2015
<b>OPERATING REVENUES</b>		
Water revenue	\$ 13,220,275	\$ 12,941,395
Forfeited discounts	209,804	273,713
Other water revenues	129,896	136,346
<b>TOTAL OPERATING REVENUES</b>	<u>13,559,975</u>	<u>13,351,454</u>
<b>OPERATING EXPENSES</b>		
Water purchased	8,662,074	8,052,609
Operation and maintenance expense	3,077,243	2,955,898
Depreciation	2,405,449	2,361,296
<b>TOTAL OPERATING EXPENSES</b>	<u>14,144,766</u>	<u>13,369,803</u>
<b>OPERATING LOSS</b>	<u>(584,791)</u>	<u>(18,349)</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest income	24,241	34,322
Investment (loss) income	(126,968)	24,603
Gain on sale of assets	15,080	-
Net effect of change in pension expense	(199,837)	(81,024)
Interest on long-term obligations	(162,694)	(172,867)
Amortization of bond discounts	(9,825)	(9,825)
<b>NET NON-OPERATING INCOME (EXPENSE)</b>	<u>(460,003)</u>	<u>(204,791)</u>
<b>NET LOSS</b>	<u>(1,044,794)</u>	<u>(223,140)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>4,152,801</u>	<u>1,271,685</u>
<b>CHANGE IN NET POSITION</b>	<u>3,108,007</u>	<u>1,048,545</u>
<b>NET POSITION, JANUARY 1</b>	88,343,059	87,361,405
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>(66,891)</u>
<b>NET POSITION, DECEMBER 31</b>	<u>\$ 91,451,066</u>	<u>\$ 88,343,059</u>

The accompanying notes are an integral part of the financial statements.

<b>BOONE COUNTY WATER DISTRICT</b> <b>STATEMENTS OF CASH FLOWS</b> <b>For Years Ending December 31, 2016 and 2015</b>
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	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 13,315,779	\$ 13,570,164
Paid to suppliers for goods and services	(10,329,778)	(9,978,248)
Paid to or on behalf of employees for services	(1,185,824)	(1,162,252)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,800,177</u>	<u>2,429,664</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases and sales of investments	(5,267,776)	(3,586,200)
Interest on investments	34,282	53,646
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(5,233,494)</u>	<u>(3,532,554)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long-term debt	(405,717)	(401,692)
Transfers of reserve for depreciation, cash and certificates of deposit	2,993,559	1,129,158
Interest paid on long-term debt	(165,333)	(175,414)
Acquisition and construction of fixed assets	(467,627)	(612,249)
Proceeds on sale of assets	19,520	-
Contributed capital received	321,621	474,528
(Increase) decrease in restricted funds		
Debt service account	(3,881)	58,005
Debt service reserve account	(11,305)	(11,459)
Renewal and replacement account	750,000	1,052,023
<b>NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>3,030,837</u>	<u>1,512,900</u>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(402,480)</u>	<u>410,010</u>
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR</b>	<u>679,969</u>	<u>269,959</u>
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<u>\$ 277,489</u>	<u>\$ 679,969</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating loss	\$ (584,791)	\$ (18,349)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,405,449	2,361,296
Change in operating assets and liabilities		
(Increase) decrease in receivables	(244,196)	218,710
Decrease in inventories	13,789	9,441
(Increase) decrease in prepaid assets	(5,054)	2,471
Increase (decrease) in accounts payable	129,936	(144,788)
Increase in accrued payroll and taxes	42,908	2,311
Increase (decrease) in deferred revenue on tap ins	26,555	(23,685)
Increase in customer deposits	15,581	22,257
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,800,177</u>	<u>\$ 2,429,664</u>
<b>Non-Cash Capital and Related Financing Activities:</b>		
Capital assets (transmission mains, hydrants, etc.) contributed to the District	<u>\$ 3,831,180</u>	<u>\$ 932,740</u>
<b>Supplemental Information</b>		
Interest paid	<u>\$ (165,333)</u>	<u>\$ (175,414)</u>

The accompanying notes are an integral part of the financial statements.

**BOONE COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES**

The Boone County Water District (District) is a water utility, which provides service to residential and commercial customers in Boone County, Kentucky. The District was created by the Boone County Court under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”).

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Net position (i.e., total assets net of total liabilities) are segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Assessments Receivable

Assessments that the District has levied on property owners for the extension of water service to their property are recorded as a receivable at the time of the final public hearing.

Allowance for Bad Debts

The District maintained an allowance for bad debts of \$37,000 at 2016 and 2015, respectively.

Cash Equivalents

For purposes of the statement of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government’s website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

**BOONE COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Inventories

Inventories are stated at the lower of cost or market value. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of results of operations.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress." When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and assessments charged to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors. These amounts have been reduced by rebates paid to the contractor for 50 feet of line each time that a new customer taps into the contributed line.

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sale of fixed assets and interest income.

**NOTE 2 – DEPOSITS**

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the Statement of Net Position as "Cash and Cash Equivalents" and "Restricted Assets". The balances for Cash and Cash Equivalents were \$5,822,220 and \$8,742,265 at December 31, 2016 and 2015, respectively. The balances for Restricted Assets were \$431,331 and \$1,166,145 at December 31, 2016 and 2015, respectively. Investments in Certificates of Deposit were valued at \$0 and \$500,000 at December 31, 2016 and 2015, respectively.

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The District's General Bond Resolution dated October 13, 1992 permits investment of monies in each fund, consistent with the contemplated use of such monies, in investment obligations defined as follows:

- a) Direct obligations of or obligations guaranteed by the United States of America;
- b) Obligations issued by any of the following agencies: Federal Home Loan Bank System; Export-Import Banks; Government National Mortgage Association; Farmers Home Administration; Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association; and any other Federal Agency to the extent that such obligations are backed by the full faith and credit of the United States (other than provided in (a) hereof);
- c) Public housing bonds issued by public housing authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public housing authorities, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- d) U.S. Dollar denominated deposit accounts fully insured to the holder (up to the \$250,000 maximum coverage) by the Federal Deposit Insurance Corporation in commercial banks, and to the extent not so insured (amounts in excess of \$250,000 maximum coverage), collateralized by obligations described in (a) or (b) above, having at all times a quoted market value at least equal to such uninsured amount plus accrued and undisbursed interest;
- e) General obligations to the Commonwealth of Kentucky;
- f) A pool or fund made up entirely of U.S. Government obligations or obligations guaranteed both as to principal and interest by the U.S. Government ; or
- g) Repurchase agreements for U.S. Government Obligations, secured in the same manner as is provided in (d) above for other deposits.

**NOTE 3 – INVESTMENTS**

Investment obligations are deemed to be part of the fund or account for which they were purchased. Income, interest, gains and losses on an investment obligation are credited or charged to the fund or account for which such an investment obligation was purchased. In the case of the Debt Service Reserve, as long as the aggregate debt service reserve requirement is being maintained, excess income from that fund is to be transferred to the Water Reserve Fund.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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Investments' fair value measurements are as follows at December 31, 2016:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. treasuries	\$ 2,881,760	\$ 2,881,760	\$ -	\$ -
U.S. agencies (FNMA, etc.)	3,661,917	3,661,917	-	-
Municipal bonds	301,740	-	301,740	-
Total debt securities	6,845,417	6,543,677	301,740	-
Equity securities:				
Mutual funds	1,831,723	1,831,723	-	-
Total equity securities	1,831,723	1,831,723	-	-
Subtotal investments	8,677,140	8,375,400	301,740	-
Cash and Cash Equivalents				
Money market funds	197,741	197,741	-	-
Total investments	\$ 8,874,881	\$ 8,573,141	\$ 301,740	\$ -

Investments' fair value measurements are as follows at December 31, 2015:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. treasuries	\$ 1,197,927	\$ 1,197,927	\$ -	\$ -
U.S. agencies (FNMA, etc.)	1,748,475	1,748,475	-	-
Municipal bonds	307,426	-	307,426	-
Total debt securities	3,253,828	2,946,402	307,426	-
Equity securities:				
Mutual funds	324,492	324,492	-	-
Total equity securities	324,492	324,492	-	-
Subtotal investments	3,578,320	3,270,894	307,426	-
Cash and Cash Equivalents				
Money market funds	2,434,829	2,434,829	-	-
Total investments	\$ 6,013,149	\$ 5,705,723	\$ 307,426	\$ -

Debt and equity securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Debt securities categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices.

In accordance with GASB 40, the District has \$348,252 and \$336,947 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2016 and 2015, respectively. The market risk on these investments is negligible.

<b>BOONE COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2016 and 2015</b>
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**NOTE 4 – RESTRICTED PORTION OF NET POSITION**

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted portion of net position. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets not included in the above categories.

Included in restricted portion of net position at December 31,

	<u>2016</u>	<u>2015</u>
Debt Service Account	\$ 83,079	\$ 79,198
Debt Service Reserve Account	348,252	336,947
Renewal and Replacement Account	-	750,000
Subtotal - Restricted Assets	<u>431,331</u>	<u>1,166,145</u>
Deferred refunding costs on defeased bond debt	33,651	43,476
Less: non-capital payables to be paid from restricted assets: accrued interest payable	<u>(42,766)</u>	<u>(45,405)</u>
Total Restricted Portion of Net Position	<u>\$ 422,216</u>	<u>\$ 1,164,216</u>

**NOTE 5 – UTILITY PLANT IN SERVICE**

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method as detailed in Note 1. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-40 years
Furniture and fixtures	5-15 years
Machinery and equipment	5-10 years
Automated meter system	50 years
Transmission lines	50 years
Rate Study	4 years

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Asset Type	Balance at	Additions	Retirements	Balance at
	December 31,			December 31,
	2015			2016
Land	\$ 256,633	\$ -	\$ -	\$ 256,633
Transmission lines	107,386,965	4,219,410	-	111,606,375
Automated meter system	1,663,110	-	-	1,663,110
Buildings	1,946,420	7,344	(5,186)	1,948,578
Machinery and equipment	1,383,847	27,563	(33,363)	1,378,047
Furniture and fixtures	127,947	-	-	127,947
Rate study	220,578	-	-	220,578
Construction in progress	143,018	76,746	-	219,764
Subtotal	113,128,518	4,331,063	(38,549)	117,421,032
Accumulated depreciation	(32,652,909)	(2,405,449)	34,109	(35,024,249)
Fixed Assets, net	\$ 80,475,609	\$ 1,925,614	\$ (4,440)	\$ 82,396,783

**NOTE 6 – LONG TERM DEBT**

The following is a summary of the District's debt:

Debt type	Balance at	Additions	Principal Payments	Balance at	Current Portion
	December 31			December 31	
	2015			2016	
2004 Refunding Bond	\$ 380,000	\$ -	\$ (120,000)	\$ 260,000	\$ 130,000
2011 Refunding Bond	860,000	-	(160,000)	700,000	165,000
BCFC Capital Lease	2,011,537	-	(56,477)	1,955,060	58,760
KIA Note	1,986,868	-	(69,240)	1,917,628	71,122
Totals	\$ 5,238,405	\$ -	\$ (405,717)	\$ 4,832,688	\$ 424,882

Revenue Refunding Bonds, Series 2011

In October 2011, the District sold \$1,480,000 of revenue refunding bonds in order to redeem the Water Revenue Bonds, 2001 Series A. The bonds mature on or after October 1, 2020 at a redemption price of 100%. Interest is payable April 1<sup>st</sup> and October 1<sup>st</sup> of each year. Maturing bond principal is due October 1<sup>st</sup> of each year. District infrastructure assets serve as collateral for this debt.

The Refunding Revenue Bonds, Series 2011, are scheduled to mature as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	1.000%	\$ 165,000	\$ 12,180	\$ 177,180
2018	1.000%	165,000	9,952	174,952
2019	1.000%	170,000	7,230	177,230
2020	1.05 - 2.00%	200,000	4,000	204,000
Totals		\$ 700,000	\$ 33,362	\$ 733,362

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Revenue Refunding Bonds, Series 2004

In November 2004, the District sold \$1,975,000 of revenue bonds in order to redeem the Water System Refunding and Revenue Bonds, 1993 Series A. The bonds mature on or after October 1, 2018 at a redemption price of 100%. Interest is payable April 1<sup>st</sup> and October 1<sup>st</sup> of each year. Maturing bond principal is due October 1<sup>st</sup> of each year. District infrastructure assets serve as collateral for this debt.

The Refunding Revenue Bonds, Series 2004, are scheduled to mature as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	3.700%	\$ 130,000	\$ 10,010	\$ 140,010
2018	3.900%	130,000	5,070	135,070
Totals		<u>\$ 260,000</u>	<u>\$ 15,080</u>	<u>\$ 275,080</u>

Capital Lease – Boone County Fiscal Court

The District established a capital lease related to its acquisition of Rural Water lines from the Boone County Fiscal Court, effective during the year ended 2009. This capital lease carries an interest rate of 2.00%, and expires on August 1, 2037. District infrastructure assets serve as collateral for this debt.

Remaining debt service requirements on this capital lease are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	2.00%	\$ 58,760	\$ 77,620	\$ 136,380
2018	2.00%	61,133	75,247	136,380
2019	2.00%	63,603	72,777	136,380
2020	2.00%	66,173	70,207	136,380
2021	2.00%	68,846	67,534	136,380
2022-2026	2.00%	388,267	293,633	681,900
2027-2031	2.00%	473,294	208,606	681,900
2032-2036	2.00%	576,945	104,955	681,900
2037	2.00%	198,039	5,961	204,000
Totals		<u>\$ 1,955,060</u>	<u>\$ 976,540</u>	<u>\$ 2,931,600</u>

Note Payable – Kentucky Infrastructure Authority

The District established a note payable related to its acquisition of Rural Water lines from the Boone County Fiscal Court, effective during the year ended 2009. This note payable carries an interest rate of 2.70% and matures on June 1, 2037. District infrastructure assets serve as collateral for this debt.

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Remaining debt service requirements on this note payable are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	2.70%	\$ 71,122	\$ 51,300	\$ 122,422
2018	2.70%	73,055	49,367	122,422
2019	2.70%	75,041	47,381	122,422
2020	2.70%	77,081	45,341	122,422
2021	2.70%	79,176	43,246	122,422
2022-2026	2.70%	429,357	182,748	612,105
2027-2031	2.70%	490,972	121,133	612,105
2032-2036	2.70%	561,429	50,676	612,105
2037	2.70%	60,395	815	61,210
Totals		<u>\$ 1,917,628</u>	<u>\$ 592,007</u>	<u>\$ 2,509,635</u>

Defeased District Revenue Bonds

In October 2011, the District placed \$1,741,250 from the 2011 Series Bond proceeds in trust to be used solely for satisfying scheduled payments of both principal and interest of the 2001 Series Bonds. In November 2004, the District irrevocably placed \$1,924,562 from the 2004 Series Bond proceeds in trust to be used solely for satisfying scheduled payments of both principal and interest of the 1993 Series A Bonds.

These defeased revenue bonds outstanding at December 31, 2016 are as follows:

Year	2001 Series Bond	1993 Series A
2017	\$ 170,000	\$ 135,000
2018	175,000	140,000
2019	185,000	-
2020	190,000	-
2021	200,000	-
	<u>\$ 920,000</u>	<u>\$ 275,000</u>

Miscellaneous Deferred Charges

The discount on the 2001 Series Bonds is recorded as a deferred charge and is being amortized over the life of the bond issues and the defeased bond loss associated with the 1993 Series A Bonds is being amortized over fifteen years. These revenue bonds are considered extinguished and do not appear as liabilities on the accompanying Statements of Net position as of December 31, 2016 and 2015. The balance of losses incurred on the 2001 Series Bonds defeasement was \$21,918 in 2016 and \$27,636 in 2015. The balance of losses incurred on the 1993 Series A Bonds defeasement was \$11,733 in 2016 and \$15,840 in 2015.

<b>BOONE COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2016 and 2015</b>
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**NOTE 7 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM**

The District’s eligible employees are covered by the County Employees Retirement System.

**General information about the County Employees Retirement System Non-Hazardous (“CERS”)**

*Plan description*-Employees are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided*- CERS provides retirement and death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years of service.

For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced Retirement	27 years service or 65 years old
	Reduced Retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation Date	September 1, 2008 - December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced Retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice-related disability benefits.

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Contributions-Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

### Contributions

The District contributed 17.06% (from January – June of 2016) of which 12.42% was for the pension fund and 4.64% was for the health insurance fund, and 18.68% (from July – December of 2016) of which 13.95% was for the pension fund and 4.73% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended December 31, 2016. The District made all required contributions for the Plan pension obligation for the fiscal year ended December 31, 2016 in the amount of \$213,829, of which \$157,797 was for the pension fund and \$56,032 was for the health insurance fund.

### Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the District reported a liability of \$2,461,715 its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the District's employer allocation proportion was 0.04998% of the total CERS non-hazardous duty. The District's proportion was a decrease of .0386% from its proportion measured as of June 30, 2015. For the year ended December 31, 2016, the District recognized a pension expense of \$199,837.

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 10,747	\$ -
Net difference between projected and actual earnings on plan investments	231,426	-
Changes of assumptions	130,409	-
Changes in proportion and differences between District's contributions and proportionate share of contributions	2,934	10,332
District's contributions subsequent to the measurement date	<u>84,576</u>	<u>-</u>
Total	<u>\$ 460,092</u>	<u>\$ 10,332</u>

<b>BOONE COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2016 and 2015</b>
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The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, differences between projected and actual earnings on plan investments, changes of assumptions, and changes in proportion and differences between the District's contributions and proportionate share of contributions, all of which are deferred over the weighted average years of working lifetime of all plan participants (active and inactive) which is determined to be 3.41 and 3.51 years for 2016 and 2015, respectively. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5 year period. Deferred outflows related to the District's contributions subsequent to the measurement date are not amortized.

**Deferred Outflows and Inflows of Resources**

In FY 2016, \$460,092 was recognized as a deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) changes in proportion and differences between the District's contributions and proportionate share of contributions, and e) the District's contributions subsequent to the measurement date. In FY 2016, \$10,332 was recognized as a deferred inflow of resources resulting from changes in proportion share.

The District's contributions subsequent to the measurement date of \$84,576 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral Amortization
2017	\$ 136,052
2018	89,294
2019	88,424
2020	51,414
2021	-
	\$ 365,184

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan expense, including inflation

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The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and the margin will be reviewed when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

#### **Changes of Assumptions**

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	Discount Rate	District's Proportionate Share of Net Pension Liability
1% decrease	6.5%	\$ 3,067,696
Current discount rate	7.5%	2,461,715
1% increase	8.5%	1,942,269

**Plan Fiduciary Net Position**

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

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**NOTE 8 – RELATED PARTY TRANSACTIONS**

The District purchases water from the joint Boone-Florence Water Commission (Commission). Two of the District's board members also serve as commissioners on the Boone-Florence Water Commission. The Commission is the District's sole source of wholesale water. The Commission was created in a joint venture with the City of Florence, Kentucky to purchase water from the City of Cincinnati, Ohio. During 2016 and 2015, the District purchased \$8,662,074 and \$8,052,609, respectively. During 2016 and 2015, the District leased office space to the Commission at a cost of \$6,000 per year. The District also provided maintenance services to the Water Commission lines and towers, and was reimbursed \$52,042 and \$44,329 for those services during 2016 and 2015, respectively.

**NOTE 9 – ECONOMIC DEPENDENCY/CREDIT RISK**

Boone County Water District is a government agency operating with one office in Burlington, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Boone County, Kentucky.

**NOTE 10 – RESTATEMENT OF PRIOR YEAR STATEMENTS**

The District has recorded an adjustment to the Beginning Net Position of (\$66,891) at December 31, 2015. This adjustment accounts for the estimated net pension liability at June 30, 2015, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

**NOTE 11 – SUBSEQUENT EVENTS**

Management has considered subsequent events through April 17, 2017, which represents the date the financial statements were available to be issued. The District did not have any events subsequent to December 31, 2016 through April 17, 2017 to disclose.

**BOONE COUNTY WATER DISTRICT**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN-NON-HAZARDOUS**  
**Last Ten Fiscal Years**

	Schedule of the District's Proportionate Share of the Net Pension Liability									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.059998%	0.051020%								
Proportionate share of the net pension liability (asset)	\$ 2,461,715	\$ 2,193,686								
Covered employee payroll in year of measurement	\$ 1,143,696	\$ 1,179,827								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	215.24%	185.93%								
Plan fiduciary net position as a percentage of total pension liability	55.50%	59.97%								

	Schedule of the District's Pension Fund Contributions					
	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 142,047	\$ 150,428	\$ 158,222			
Actual contribution	(142,047)	(150,428)	(158,222)			
Contribution deficiency (excess)	\$ -	\$ -	\$ -			
Covered employee payroll	\$ 1,143,696	\$ 1,179,827	\$ 1,151,543			
Contributions as a percentage of covered employee payroll	12.42%	12.75%	13.74%			

**Notes to Required Supplementary Information**  
**for the Year Ended December 31, 2016**

The net pension liability as of December 31, 2016, is based on the June 30, 2016, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 7 in the Notes to the Financial Statements.



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

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Licensed in Kentucky & Ohio

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

**Independent Auditor's Report**

To the Board of Commissioners  
Boone County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Boone County Water District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements which collectively comprise Boone County Water District's basic financial statements and have issued our report thereon dated April 17, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audits of the financial statements, we considered Boone County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Boone County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Boone County Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did not identify deficiencies in internal control that we consider to be significant deficiencies.



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boone County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Van Gorder, Walker & Co., Inc.*

Van Gorder, Walker & Co., Inc.  
Erlanger, Kentucky  
April 17, 2017